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Estimating East European Debt

A Research Paper

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Estimating East European Debt [redacted]

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A Research Paper

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The author of this paper is [redacted] USSR/East European Division, Office of Economic Research. The paper was coordinated with the National Intelligence Officer for Political-Economy. Comments and queries are welcome and may be addressed to Chief, USSR/East European Division, OER. [redacted]

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Estimating East European Debt

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Overview

We have developed new procedures for estimating Eastern Europe's hard currency debt from financial statistics collected by NATO, the Organization for Economic Cooperation and Development (OECD), and the Bank for International Settlements (BIS). The 1978 yearend gross debt and net debt estimates for the six East European countries surveyed are as follows:

Billion US $

	Gross Debt [1]	Net Debt [1]
Total	**46.9**	**42.3**
Poland	17.8	17.0
East Germany	8.9	7.5
Hungary	7.5	6.5
Romania	5.2	5.0
Bulgaria	4.3	3.7
Czechoslovakia	3.2	2.5

[1] Gross debt equals Eastern Europe's liabilities to Western governments, commercial banks, suppliers, and other lenders. Net debt equals gross debt less Eastern Europe's financial assets. These assets consist of deposits placed with Western banks. The East European countries have also extended export credits to hard currency buyers, but we lack adequate data to include these amounts in the estimates of financial assets.

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By 1978 debt service equaled 79 percent of Polish exports to non-Communist countries. The comparable debt service ratios for the other East European countries were 51 percent for East Germany (GDR), 36 percent for Hungary, 20 percent for Romania, 46 percent for Bulgaria, and 20 percent for Czechoslovakia (CSSR).

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According to these estimates, Eastern Europe's gross debt to the West grew by $40.8 billion between yearend 1971 and yearend 1978; net debt rose by $37.3 billion over this period. Poland alone accounted for 43 percent of the increase in East European hard currency obligations. Hungary and East Germany also recorded a steady growth in debt between 1971 and 1978, but at a lower rate than Poland. The CSSR, Bulgaria, and Romania have generally been more cautious in their borrowing. Practically all of the increase in Eastern Europe's debt to the West has resulted from commercial borrowing, principally from Western banks.

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The totals derived by these new procedures do not differ substantially from previously published CIA estimates. The estimates for Poland and Romania are also reasonably consistent with the debt and balance-of-payments statistics reported by these two countries. By using BIS, OECD, and NATO data bases, however, we gain greater insight into each country's relative use of Western commercial bank financing, Western officially backed credits, and other borrowing sources. Since the quality of Western financial reporting continues to improve, the estimates derived from our new procedures should increase in accuracy accordingly. [redacted] 25X1

In addition to estimating debt to the West, we have also computed each country's hard currency obligations to the International Investment Bank (IIB) of the Council for Mutual Economic Assistance (CEMA); the IIB has raised $2.8 billion on Western financial markets for the bloc. The lack of data on hard currency lendings by the International Bank for Economic Cooperation (IBEC) prevents us from estimating borrowings from CEMA's other communitywide bank. [redacted] 25X1

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Introduction

The East European countries [1] have traditionally treated statistics on their hard currency trade and payments—with the exception of some trade data—as classified information. Prior to 1979, only two countries had provided any information on their hard currency finances: Romania on a confidential basis to the International Monetary Fund (IMF) and World Bank (IBRD) and Hungary in support of its foreign borrowing. Early in 1979, Poland reported extensive data on its hard currency debt and balance of payments to obtain a desperately needed syndicated loan.[2] The other bloc countries have not yet given any sign of providing similar information. [redacted]

Because of the scarcity of data from the borrowing countries, estimates of East European hard currency debt have relied largely on Western financial reporting. These estimates rested on many tenuous assumptions since Western reporting was long deficient in both scope and quality of coverage. The need for better data became increasingly apparent as concern rose among Western banks and governments about their growing financial exposure to Communist nations. In response, several international organizations have initiated measures in recent years to improve the collection of statistics on Western lending to Communist governments. [redacted]

The new and upgraded reporting programs are providing increasingly useful data. Recent reports by NATO's Economic Directorate and the OECD have given new detail on officially backed credits extended by member governments to the Soviet bloc.[3] Since 1974, the BIS has steadily widened the coverage and content of its reporting on international lending by Western banks. [redacted] 25X1

To reduce the number of assumptions underlying our estimates of Soviet bloc debt, we have developed procedures that make maximum use of the improving statistics reported by NATO, the OECD, and the BIS.[4] In this way we hope to gain greater insight into the Soviet bloc's use of various sources of financing and to measure more accurately the debt burden shouldered by each country. [redacted] 25X1

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Our estimates apportion debt between that amount covered by Western government guarantees—officially backed debt—and that portion which does not have such backing—commercial debt. We estimate the size and maturity structure of each category separately by taking a basic time series and making necessary adjustments to account for gaps and double counting in the data. Since our data sources still suffer from some lack of clarity and consistency, we must continue to resort to a few assumptions in deriving these estimates. Consequently, the totals presented for each country should be viewed as falling within a range of error. [redacted] 25X1

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This paper will first present our procedures for estimating Eastern Europe's commercial debt and government-backed debt. It will also describe some standard measures of debt burden derived from the available data. We will then examine each country's financial position separately. We will assess the accuracy of the estimates and compare them with previously published CIA totals. Finally, we will discuss the role of CEMA's international banks as 25X1

[1] The East European countries covered in this survey are Poland, East Germany, Hungary, Romania, Bulgaria, and Czechoslovakia. We did not apply this methodology to estimating Yugoslav and Albanian debt since neither NATO nor the OECD report the required statistics. [redacted]

[redacted]

[redacted] 25X1

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hard currency lenders to Eastern Europe and review information regarding each country's hard currency obligations to these banks.

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Estimating East European Commercial Debt

Reporting by the BIS on the assets and liabilities of Western commercial banks with Eastern Europe serves as the basis for our estimates of commercial debt. The BIS data cover external assets stemming from (a) bank-to-bank credits, (b) bank participation in syndicated loans, (c) time deposits placed with Soviet bloc national banks, (d) trade drafts, drawn on foreign buyers, discounted by the banks, and (e) *a forfait* claims held by banks.[5] We adjust the BIS series to account for (a) Western bank positions not reported to the BIS before 1977, (b) Swiss, Japanese, Canadian, and US bank positions reported to the BIS but not broken out with respect to each of the East European countries, (c) supplier credits held in the West but not included in the BIS reporting, (d) nonguaranteed borrowing from outside the BIS area, and (e) reported bank lending supported by official credit guarantees. The methodology employed is outlined in table 1 and described below.

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Table 1

Methodology for Estimating Commercial Debt

East European liabilities =
Commercial bank assets as reported to BIS
Plus:
Western bank assets not reported to the BIS before 1977
Western bank assets estimated from the USSR–East European residual given in the quarterly BIS reports
Supplier credits held in the West but not included in reporting to the BIS
Borrowing outside the BIS reporting area
Less:
Government supported credits included in member bank submissions to the BIS
East European assets =
Commercial bank liabilities as reported to the BIS
Plus:
Austrian bank liabilities for 1971-76
Western bank liabilities estimated from the USSR–East European residual given in the quarterly BIS reports

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BIS Reporting

BIS summary data for 1971-73 consisted of annual reports of the positions of Western commercial banks vis-a-vis the Soviet–East European group as a whole. The only complete country-by-country breakout for this period is reporting by the Bank of England on the external foreign currency liabilities and claims of banks in the United Kingdom. We allocated the BIS totals to each country in accordance with that country's share of UK bank claims and liabilities for the 1971-73 period.

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In 1974, the BIS initiated an expanded system of quarterly reports in which member bank positions are made explicit with respect to each East European country. Initially, this coverage included the claims and liabilities of commercial banks in France, Belgium-Luxembourg, West Germany, Italy, Sweden, and the United Kingdom. (West German banks have not reported their position with the GDR to the BIS, but we have no evidence of West German bank lending to the GDR before 1976.) By 1975, coverage was extended to banks in the Netherlands and foreign branches of US banks in the Caribbean and the Far East. In 1977, explicit coverage for all East European countries began to include the positions of banks in Austria, Ireland, and Denmark, of Japanese banks with Poland and Romania, and of US domestic banks with Poland. The 1977 statistics also included for the first time some domestic currency claims of banks in France and the United Kingdom. By the end of 1978 explicit coverage for all East European countries encompassed banks in the United States and Canada.

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[5] *A forfait* or nonrecourse financing is a form of supplier's financing whereby the bank or other financial investor accepting bills or notes from an exporter for discount absorbs the risks of collecting payment from the importer. See discussion on pp 3-4.

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Bank Positions Not Reported to the BIS Before 1977
The BIS prepared two reports for yearend 1977; one of these surveys covered the same banking positions as the 1974-76 quarterly reports while the second included for the first time the claims and liabilities of banks in Austria, Ireland, and Denmark vis-a-vis Eastern Europe as well as some supplier credits held by UK and French banks which are denominated in pounds and francs, respectively. The second report for December 1977 showed an increase of approximately 15 percent in East European liabilities over the first survey.

We have adjusted our 1971-76 series to make it as consistent as possible with the expanded surveys for 1977-78. Using data compiled by the Austrian National Bank we have added Austrian bank claims on and liabilities to each of the East European countries to the BIS series for 1971-76. Since we lack data on the positions of Irish and Danish banks as well as on the amount of domestic currency trade claims held by French and British banks, we increased our estimates for 1971-76 by the percentage difference between (a) the totals of the first survey for yearend 1977 plus 1977 Austrian bank positions and (b) the totals of the second BIS survey.

Swiss, Dutch, Japanese, Canadian, and US Bank Positions in the BIS Residual
In its quarterly reports, the BIS has reported a residual category for the Soviet–East European group. This category encompasses Western banks that have not broken out their position by individual country. For all years covered by the quarterly reports, the position of Swiss banks has been reported in the residual. The residual also included Dutch banks until 1975 and Canadian banks until 1978. The position of Japanese banks vis-a-vis all East European countries was part of the residual until 1977 when explicit coverage for Poland and Romania began to include Japanese banks. The position of banks in the United States was not broken out by country until 1977 when US domestic bank assets and liabilities vis-a-vis Poland were included in the explicit reporting. By 1978, coverage for all East European countries included US domestic banks.

Beginning in December 1976, the BIS started to report the maturity structure of member bank lending to individual East European countries. These reports survey banks in the same Western countries as those included in the quarterly reports; however, the maturity structure reports do not have a residual category for lending, meaning that all reporting banks provide an explicit country-by-country breakout. Since the total number of banks surveyed in the maturity-structure reports is somewhat smaller than the number reporting in the quarterly position reports, we could not use the maturity structure statistics directly. We 25X1
assumed, however, that each country's share of East European liabilities (including the residual) reported in the quarterly survey equals its reported share of total East European liabilities in the maturity survey. To determine each country's share of the residual, we then subtracted its explicitly reported liabilities in the quarterly report from its estimated share of total East European liabilities. For 1974-75, we allocated the residual in proportion to the countries' shares in the explicitly reported totals. 25X1

Supplier Credit Financing
A considerable volume of supplier credit extended by Western firms is neither reported as commercial bank 25X1
lending to Eastern Europe nor included in statistics on Western government-backed lending. These credits include both claims held by exporters at their own risk and trade paper discounted in secondary financial markets. 25X1

Supplier credits may be extended by a trade draft, or the East European buyer may issue a promissory note to the Western seller. To generate cash and to avoid the risk of interest rate and exchange rate fluctuations, exporters generally sell the paper at a discount in secondary financial markets. Some countries such as France and the United Kingdom provide extensive government-backed schemes for refinancing medium-term supplier credit. In some other countries, government discounting facilities may be inadequate or expensive or they may require the exporter to bear some of the risk of nonpayment by the importer. Under these circumstances, recipients of promissory notes often make use of the *a forfait* market. 25X1

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Forfaiting is a method by which a series of promissory notes or trade drafts, usually maturing over a period of five years, is discounted. The *a forfait* market permits an exporter who is the recipient of a promissory note to sell the paper to a bank or other financial institution with the provision that there can be no recourse to the exporter in the event of default by the importer. The sales are usually made at a fixed discount rate. Because of their relatively high yield to maturity, the discounted notes often enter the investment portfolios of nonbank financial institutions, private investors, or commercial bank trust accounts.

With the exception of Hungary, all East European countries use promissory note financing to some degree. A considerable volume of Polish, East German, Czech, and Romanian paper has been discounted in the *a forfait* market; there is little trading in Bulgarian notes since these are normally refinanced through bank-to-bank credits from Western banks to the Bulgarian Foreign Trade Bank. The amount of new East European paper entering the market grew during the early and mid-1970s, but has declined since 1976. The dropoff reflects (a) the availability of lower cost direct financing from highly liquid Euromarket banks and (b) the concern felt by East European foreign trade banks about the existence of large secondary markets in their paper and the impact that this may have on their overall credit rating.

Estimates vary for the total value of East European supplier credit outstanding in the West. A portion of these credits is held by Western banks and is reported to the BIS as claims on the respective East European countries. Our estimates for supplier credit financing refer only to the remaining portion, which we assume to be held by Western exporters, nonbank financial institutions, or private investors. Our time series for this category of borrowing reflect (a) estimates of the amount of outstanding notes made by individuals active in the *a forfait* market, (b) the value of each country's imports of Western machinery and equipment, (c) each country's relative use of government-backed credits in financing machinery and equipment purchases, and (d) the comparatively greater reliance by most borrowers on direct bank financing in the past few years. (See table 2 for estimated promissory note placements outside Western banks.) 25X1

Other Borrowing

In addition to the use of supplier credits, the East European countries have obtained loans from sources that neither report to the BIS nor are included in summary reporting of government-supported credits. Middle Eastern financial centers rank among the most important of these sources. Bulgaria, Romania, and Poland have received project development loans from Iran. On a number of occasions since 1974, the Kuwait Investment Company has managed bond and private placement issues for Hungary, Poland, and Romania; Poland and Hungary have also raised loans from the United Arab Emirates. In all likelihood, there have been additional unpublicized credits from the Middle East to the East European countries. 25X1 25X1

Besides the Middle Eastern placements, the East European countries have floated bond and note issues in the international bond market. Since Eurobond issues and notes are sold primarily to government and private institutions and individuals rather than to commercial banks, we assume that little of this borrowing is covered in the BIS surveys. 25X1

Other borrowing for East Germany also includes estimates of West German commercial credits without guarantees carried in the intra-German trade clearing account. We have information on total GDR debt to West Germany which consists of (a) credits backed by West German official agencies, (b) the swing balance, and (c) nonguaranteed commercial credits. We cannot simply add the full amount of GDR debt to West Germany to our estimates of total GDR debt since export credits with official guarantees are included in our aggregated data on officially backed lending to the GDR. Thus we developed estimates for nonguaranteed commercial credits from a small amount of data on West German commerical bank positions with the GDR. 25X1 25X1

Table 2 Million US $

Eastern Europe: Promissory Notes Placed in the West [1]

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Bulgaria	25	25	25	25	50	125	75	50	50
Czechoslovakia	75	75	100	125	175	200	175	200	175
East Germany	75	100	100	125	150	175	175	175	150
Poland	50	75	125	250	375	475	350	325	225
Romania	100	100	125	125	150	150	100	75	75

[1] Notes neither held by Western banks nor covered by official credit guarantees.

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Other possible borrowing sources not covered by current BIS reporting include Finland and Spain as well as the Singapore branches of European and Japanese banks. These lenders probably hold some claims on the East European countries, but the amounts involved almost certainly are small.

Double Counting

An unresolved problem in interpreting BIS statistics is the possibility that some portion of assets reported by member banks to the BIS are backed by government credit guarantees. The BIS itself seems to be in the dark on this question because it has provided conflicting information to different researchers. Apparently reporting procedures vary by country, and various official credit guarantee programs impact differently on member bank accounting practices.

We have indications that banks in a number of Western countries include credits with official backing in submissions to the BIS. Some portion of official lending from Belgium, Sweden, France, Japan, the Netherlands, Switzerland, and Canada possibly appear in the BIS statistics. All officially supported nonsterling credits held by British banks and all officially guaranteed US credits are reported to the BIS. Guaranteed West German and Italian bank lending, on the other hand, apparently is not included in bank positions with Eastern Europe.[6]

[6] Our information on possible double counting of government-backed credits in BIS statistics is drawn from BIS responses to a Bank of England questionnaire on the content of BIS reporting.

Although the OECD and the BIS are investigating the amount of possible overlap in their respective statistics on government-guaranteed and commercial bank lending, neither organization has as yet published an estimate for the amount of double counting. Our adjustment for double counting is based upon estimates of that portion of French, Japanese, Belgian, Swedish, Dutch, Swiss, and Canadian reporting that is included in our estimates of officially supported debt. We do not attempt to adjust for nonsterling lending by British banks since the amount of such credits with official guarantees reportedly is small. With respect to US guaranteed lending, only Poland and Romania were eligible for such guarantees through yearend 1978; furthermore the amount of guaranteed US bank lending to these countries has been small.

For countries other than Japan, we estimate the double counting at 10 percent of guaranteed credit commitments reported to the OECD. Examination of the terms of Japanese credit lines to East European countries suggests that roughly 25 percent of guaranteed lending is probably contained in Japanese bank submissions to the BIS.

Structure of Commercial Debt

Our estimates for the structure of East European commercial debt derive principally from the BIS survey of the maturity structure of Western bank assets. The total number of banks surveyed in these

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semiannual maturity structure reports is slightly smaller than the number covered in the quarterly BIS reports on bank claims and liabilities. Thus, to estimate the structure of East European debt, we apply the percentage distribution of debt by term obtained from the December 1978 maturity breakout to the BIS quarterly report statistics for the same date. Using this imputed term structure as a base, we then adjust for residual liabilities, promissory note financing, other borrowing, and double counting to derive the structure of commercial debt at the end of 1978. For Swiss bank claims and double counting, we adopt the same maturity distribution as that of the BIS survey. We assume a five-year maturity for our estimates of promissory note drawings, except for Poland in 1978 where the term of *forfaited* notes has shortened to three years. For other borrowing we assume that bonds and project loans have maturities of over two years while other liabilities are less than one year.

In interpreting the maturity structure of commercial debt, one must realize that debt due in 1979 includes not only repayments on medium-term credits but also a sizable amount of short-term time deposits and trade drafts. Since the latter credits are normally rolled over on a continuing basis, the maturity distribution may give an exaggerated view of debt burden. The amount of debt due in 1980 and after 1980 provides a somewhat clearer indication of whether a country's repayment obligations are bunched or stretched out.

Estimating East European Debt Backed by Western Governments

The primary data source for estimating East European debt supported by official Western guarantees is the series of reports by NATO's Economic Directorate on officially backed export credits granted by member governments to Communist countries. Data on major lenders outside the NATO group have been collected largely from reporting by the OECD Export Credit Group. Although the NATO reports have inconsistencies and do not report separate totals for each lender, this series currently is superior to the OECD's because of more complete reporting by member governments and more useful summary statistics. Since we worked with two basic data sets, we made separate estimates for the NATO group, Japan, Austria, Sweden, and Switzerland. 25X1

Estimates for the NATO Group

From the NATO reports, we compiled for each East European country time series covering (a) new commitments of guaranteed credits, (b) total exposure (debt and undrawn commitments), (c) drawings on commitments, and (d) debt service payments. NATO does not report a total for debt on drawn commitments from member governments. Furthermore, we could not directly compute debt from the reported data because the NATO credit statistics include both principal and interest costs in one figure. 25X1

25X1 To separate principal and interest in the NATO totals, we had to make assumptions about the average credit terms extended by Western lenders to each East European borrower. NATO does not report average interest rates and maturities, but it does indicate the proportion of annual new commitments and total outstanding commitments having a maturity of over five years. Combining these data with information about the terms of official credit lines and guarantee programs, we derived a range of possible maturities and interest rates. After trial and error testing, we determined average credit terms for each East European country that yield debt service approximations consistent with the actual figures reported by NATO. 25X1

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Using the average credit terms, we computed directly from the NATO time series (a) new commitments of principal, (b) drawings on principal, and (c) total exposure on principal. Application of the average credit terms against estimated drawings generated repayment schedules for both principal and interest. We estimated a beginning value for the debt series by computing the level of debt that would produce—given the assumed credit terms—NATO's published data on debt service for 1971. We constructed the debt series by adding cumulative drawings through each year to the 1970 base value and subtracting cumulative repayments of principal. Subtracting estimated debt from the decapitalized exposure totals yielded undrawn commitments. 25X1

As yet we have only preliminary NATO credit statistics for 1978. We extrapolated these data to estimate total new commitments for the year. Drawings were computed from the average ratio of drawings to machinery and equipment imports observed for 1970-77. We computed debt service in the same fashion as in previous years. These estimates permit computation of 1978 debt, exposure, and undrawn commitments.

Estimates for Lenders Outside NATO
Data collected and reported by the OECD's Export Credit Group serve as the basis for estimating East European borrowing from major government lenders outside NATO (Japan, Sweden, Austria, and Switzerland). The OECD annually reports the value of contracts backed by commitments of officially supported credits exceeding one-year maturity. The value of transactions backed by official credits of more than five-year maturity is broken out by the lending and borrowing country. The value of transactions backed by credits with a maturity of one to five years is reported by individual lender, but non-Soviet CEMA borrowers are grouped into a single category. The OECD has also reported total outstanding commitments from each Western lender to each East European country.

We set new credit commitments of over five-year maturity equal to 85 percent of the value of new contracts backed by credits of this maturity. We assume that, on average, official lenders guarantee 85 percent of a contract's value. We allocated the credits of one to five years' maturity—which OECD reports as a total for non-Soviet CEMA—on the basis of changes in total commitments from each lender to each borrower.

We derived estimative relationships between the value of each East European country's imports of machinery and equipment from NATO countries and the drawings series reported by NATO. In these computations we subtracted Polish and Romanian drawings on US Commodity Corporation Credits (CCC) for imports of agricultural goods which are included in the NATO total. We assumed that these ratios applied to the non-NATO lenders as well. With one exception, application of the relationships to the value of East European imports of machinery and equipment from the non-NATO lenders yielded our estimates of drawings on Japanese, Austrian, Swiss, and Swedish commitments. The exception applied to Polish drawings on commitments from Austria, which have skyrocketed since 1976 as the result of credit lines for the purchase of steel, chemicals, and consumer goods. By using commodity trade data and information about the terms of the credit lines, we computed an additional amount to account for Polish purchases of these nonmachinery items. Repayments of principal and interest on drawn credits were computed using maturities of five years for credits from Austria, Switzerland, and Sweden and seven years for credits from Japan. We assumed an interest rate of 6.5 percent for credits drawn before 1976 and 7.25 percent for subsequent drawings.

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We assumed that the East European countries had no officially supported debt outstanding to Japan, Austria, Sweden, and Switzerland at yearend 1969. All debt to non-NATO lenders has thus resulted from drawings beginning in 1970 less principal repayments. We calculated undrawn commitments by subtracting the estimated debt totals from total financial claims reported to the OECD. We decapitalized the total claims reported by each lender for each East European country using our assumed average credit terms.[7]

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Official West German Credits to Eastern Europe
In addition to guaranteed export financing, the West German government has provided government-to-government loans to several East European countries. The Deutsche Bundesbank published in 1976 the total amount outstanding on these credits at yearend 1975 to Eastern Europe.[8] The amounts outstanding in other years can be computed from West German balance-of-payments statistics which show both annual repayments and drawings. The official West German

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[8] *Monthly Report of the Deutsche Bundesbank*, vol. 28, No 7, July 1976, p. 11.

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statistics do not break out these totals by individual country; however, drawings and repayments by recipient can be inferred from press reports.

Bulgaria apparently borrowed 335 million deutsche marks (DM) in the middle and late 1960s to refinance a sizable debt to West German suppliers. It repaid 137 million DM in 1971-72 and probably an additional 80 million DM in 1977. Romania borrowed 100 million DM in 1970 and 200 million DM in 1973 to meet maturing obligations to West German suppliers. Of the 300 million DM borrowed, an estimated 150 million DM have been repaid. Finally, Poland concluded an agreement in late 1975 to borrow 1 billion DM as help in refinancing its sizable amount of outstanding West German supplier credit. West German balance-of-payments statistics show official credit drawings of 340 million DM in 1975 and 330 million DM in 1976 and 1977, presumably by Poland.[9]

East German Debt to West Germany on the Swing Account

NATO reporting on member government-guaranteed export credits reportedly contains West German credits to East Germany insured and financed by the official organizations GEFI (Gesellschaft zur Finazierung von Industrieannagen mbH) and Treuarbeit AG. However, these data apparently do not include East German liabilities under the interest-free swing account. The West German Government set the swing credit ceiling at 440 million DM in 1970, 660 million DM in 1974, 790 million DM in 1975, and 850 million DM in 1976.[10] The 1976 figure has remained the ceiling through 1978. Statistics published by the West German Government on interzonal trade with East Germany provide the actual East German position within the permitted maximum amount of credit.

Polish Debt to the United States Under the PL-480 Program

Poland's debt to the United States under the PL-480 Program represents the unpaid balance on a very long term interest-free line of credit totaling $520 million used in 1957-64 to finance imports of US grain and other agricultural products. By agreement, a portion of the zlotys acquired by the US Treasury in payment for the purchases have been used for paying expenses of the US Embassy in Warsaw, for paying social security pensions of US retirees who have returned to Poland, and for financing US-supported projects in Poland. Warsaw must repurchase the remainder of the zloty balance held by the US Treasury with dollars. The amount outstanding—$150 million at yearend 1978—is included in Polish liabilities in hard currency because even the portion not repaid in US dollars will largely replace dollars that the United States would have otherwise spent in Poland.

Romania's Use of IMF and World Bank Credit Facilities

Romania is the only East European country belonging to the IMF and World Bank. Since joining the IMF in 1972, Bucharest has made considerable use of the Fund's credit facilities. Romania drew its gold tranche of 47.5 million Special Drawing Rights (SDR) and first credit tranche of 47.5 million SDR in 1973. Bucharest added to its obligations in 1975 when it acquired 40 million SDR under a standby credit facility. Heaviest use of IMF facilities came in 1976 when the Romanians drew 150 million SDR consisting of the remaining two credit tranches under its original quota of 190 million SDR plus an additional 45 million SDR from the standby credit facility. Additional drawings of 72.5 million SDR and 39.1 million SDR were made in 1977 and 1978, respectively. Romania repurchased 40 million SDR in 1977 and 55 million SDR in 1978, leaving repayment obligations at yearend 1978 of 302 million SDR, equivalent to $392 million.

Romania has also received long-term project development loans from the World Bank. Most of the loans have 15-25–year maturities with grace periods of up to five years and carry interest rates of 7.25 to 8.50 percent. As of 31 December 1978, World Bank commitments to Romania exceeded $900 million for 17 projects with actual drawings equal to $418 million.

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The Results: East European Hard Currency Debt to the West

Based on the procedures outlined above, we estimate that Eastern Europe's gross hard currency debt to the West grew from $6.1 billion at yearend 1971 to $46.9 billion at the end of 1978 (table 3). During the same period, East European hard currency holdings in the West rose from $1.1 billion to $4.6 billion, yielding an estimated net debt of $42.3 billion at yearend 1978. The growth of debt was particularly fast in 1974-75, when gross liabilities rose at an average of more than 50 percent annually. During the other years of this period, the growth rate was less than 35 percent per year. 25X1

Practically all of the increase in Eastern Europe's debt to the West has resulted from commercial borrowing, principally from Western banks. In 1971, commercial liabilities totaled $3.6 billion, or nearly 60 percent of gross debt. By the end of last year these borrowings had grown to $38.9 billion, or 85 percent of gross debt. Official and officially guaranteed credits totaled $7.2 billion at yearend 1978 as opposed to $2.5 billion at yearend 1971, but had fallen as a share of total debt from just over 40 percent in 1971 to 15 percent in 1979. Romania's use of IMF special drawing rights and World Bank loans totaled $0.8 billion at yearend 1978, less than 2 percent of East European debt. 25X1

Table 3 Million US $

Eastern Europe: Gross and Net Hard Currency Debt to the West

	1971	1972	1973	1974	1975	1976	1977	1978
Total								
Gross	**6,072**	**7,398**	**9,762**	**15,352**	**23,033**	**29,351**	**36,695**	**46,899**
Net	**4,927**	**5,723**	**7,950**	**12,732**	**18,657**	**25,297**	**32,860**	**42,265**
Bulgaria								
Gross	743	1,009	1,020	1,703	2,640	3,198	3,707	4,263
Net	723	909	997	1,360	2,257	2,756	3,169	3,710
Czechoslovakia								
Gross	485	630	757	1,048	1,132	1,862	2,616	3,206
Net	160	176	273	640	827	1,434	2,121	2,513
East Germany								
Gross	1,408	1,554	2,136	3,136	5,188	5,856	7,145	8,894
Net	1,205	1,229	1,876	2,592	3,548	5,047	6,159	7,548
Hungary								
Gross	1,071	1,392	1,442	2,129	3,135	4,049	5,655	7,473
Net	848	1,055	1,096	1,537	2,195	2,852	4,491	6,532
Poland								
Gross	1,138	1,564	2,796	4,643	8,014	11,483	13,967	17,844
Net	764	1,150	2,213	4,120	7,381	10,680	13,532	16,972
Romania								
Gross	1,227	1,249	1,611	2,693	2,924	2,903	3,605	5,219
Net	1,227	1,204	1,495	2,483	2,449	2,528	3,388	4,990

25X1

The policies of East European countries depended on a substantial increase in hard currency debt in the 1970s as governments sought to modernize their economies with imported Western technology and equipment. With the exception of Hungary, the East European regimes probably intended to link a sizable share of this planned borrowing to Western government-backed credits which feature low (and often subsidized) interest rates and lengthy repayment maturities. But, a combination of soaring world prices on needed commodity imports, disappointing export performance, and extraordinary grain import requirements produced unexpected pressure on Eastern Europe's payments position, necessitating sizable general purpose financing. This financing need underlies to a major extent the rapid growth in East European liabilities to Western commercial banks since these credits—unlike government-backed and other supplier credits that are tied to specific purchases—can be used to cover immediate obligations. On the other hand, bank credits pose a greater threat of growing debt service difficulties since they generally carry higher interest rates and shorter maturities than government-backed loans.

The size of debt reveals little about a country's ability to meet its financial obligations and to sustain needed imports. To provide perspective on each country's debt, we have calculated several indicators of hard currency debt burden (table 4).

The ***debt service ratio*** is the customary measure of solvency. For each country, we have computed debt service ratios with respect to earnings from merchandise exports to all non-Communist countries. Service payments comprise estimated interest on total outstanding debt plus estimated repayments of principal on government-supported debt and estimated repayments on medium- and long-term commercial debt. 25X1

To calculate annual interest payments on commercial borrowings, we assume an interest rate of 0.75 percentage point over the annual London Interbank Offer Rate (LIBOR) and apply this rate against average debt for the year. We applied fixed interest rates in calculating interest payments on officially supported debt; an average annual rate of 6.5 percent was assumed for credits drawn in 1971-75 and an average annual rate of 7.2 percent was used for credits drawn in 1976-78. We estimated repayments on medium-term commercial credits largely from the BIS maturity surveys. Repayments on official credits were estimated principally from the NATO statistics as described above with average maturities falling between five and seven years depending upon the borrower. 25X1 25X1

The debt service ratio, however, does not address the question of future debt burden. ***Debt to export ratios*** are often used as a benchmark for the burden of

Table 4

Eastern Europe: Measures of Debt Burden

	Debt Service Ratio		Debt to Export Ratio		Debt Service to Drawings		Net Transfer	
	1972	1978	1972	1978	1972	1978	1972	1978
	Percent		Percent		Percent		Million US $	
Bulgaria	36	46	198	271	46	80	212	183
Czechoslovakia	10	20	46	104	56	67	106	309
East Germany	18	51	95	247	85	70	53	1,024
Hungary	14	36	140	295	37	43	243	1,194
Poland	15	79	87	324	44	64	352	2,410
Romania	27	20	99	120	125	41	−68	1,263

25X1

outstanding debt over time. We have estimated debt to export ratios for the 1972-78 period, using earnings from non-Communist merchandise exports as the base. [redacted]

Two additional indicators reflect the impact of new borrowings and debt service payments upon a country's import capacity. The ***net transfer measure***—new drawings less repayments of principal and interest—reflects the increase (or reduction) in a country's ability to import goods and services as a result of debt financing. We also calculated that ***portion of new drawings used to service existing debt*** to measure the extent to which a country is rolling over its hard currency debt. These two measures move together; a large positive net transfer implies borrowing in excess of roll-over requirements, while a negative net transfer implies borrowing below the amounts required to meet debt service obligations. [redacted]

The following sections briefly review each country's financial position as reflected in our estimates of debt to the West and debt burden. Appendix A contains complete tables summarizing the estimates of debt, debt burden, and maturity structure for each country. [redacted]

Poland

Polish gross debt grew from $1.1 billion at yearend 1971 to $17.8 billion ($17.0 billion net) at the end of 1978. Polish borrowing grew at a particularly high rate between 1972 and 1976, when it rose from $1.6 billion to $11.5 billion, or by an average annual rate of more than 60 percent. Although Warsaw's obligations grew by an additional $6.4 billion in 1977-78, Poland at least slowed the rate of increase in its liabilities to less than 25 percent a year, less than the average for the other East European countries. [redacted]

Over 70 percent of the growth in Poland's debt between 1971 and 1978 resulted from commercial borrowings. Warsaw has been the leader among the East Europeans in the use of syndicated credits, raising more than $2.2 billion from this type of borrowing. The Poles have borrowed $500 million from the Eurobond market and placements with Middle Eastern investors. [redacted]

Official and officially backed credits make up nearly one-fourth of Warsaw's gross debt—the largest share of any East European country. Poland's $4.4 billion in official debt at yearend 1978 consisted of $3.7 billion (25X1) in government-backed export credits (including obligations to the United States under the CCC program), $0.6 billion in West German government-to-government credits, and $150 million in outstanding PL-480 obligations to the United States. [redacted] 25X1

The measures of debt burden graphically delineate Poland's mounting difficulties in managing its debt. In 1971, Poland enjoyed low debt to export and debt service ratios in comparison with the other East European countries. The heavy borrowings of the mid-1970s yielded a sizable net transfer of resources, but the rapid growth of debt in relation to the increase in non-Communist exports presaged worsening problems in servicing debt. By 1978, repayment and (25X1) interest obligations equaled 79 percent of non-Communist exports—by far the highest ratio among the East European countries. Although new credit drawings remained sizable, Warsaw's ability to effect a positive resource transfer deteriorated in 1976-78. In effect 64 percent of every dollar borrowed went to servicing debt in 1978—and not to acquiring real (25X1) resources—compared with roughly 35 percent in 1973-76. [redacted] 25X1

The sheer magnitude of the obligations scheduled to mature over the next several years will strain Warsaw's finances. Fortunately, the Poles have some $4.8 billion in undrawn credit commitments from Western governments. Of course, almost all of these commitments are tied credits and thus of little help in servicing debt. However, these available credits—particularly if Warsaw can arrange to use them for purchasing its most necessary Western imports—can help the Poles as they (25X1) struggle to sustain needed imports and service outstanding debt over the next several years. [redacted] 25X1

East Germany

At yearend 1978, the GDR's gross debt totaled $8.9 billion, the second largest amount among the East European countries. The East Germans had the largest holdings of hard currency in Western banks—more than $1.3 billion—leaving a net debt of $7.5 billion. 25X1 [redacted] 25X1

Roughly three-fourths of East German debt stems from borrowing from Western commercial banks, much of which has been in the form of medium-term credits. Syndicated loans to the GDR between 1972 and 1978 totaled $2.1 billion. While government-guaranteed export credits account for less than 10 percent of East German debt, the GDR increased its use of these credits in 1977-78 and the amount of outstanding commitments nearly tripled between 1975 and 1978. Having accumulated over $2 billion in undrawn commitments, the GDR may be planning to step up its use of this financing source in the near future. About $1.8 billion of the GDR's debt is owed to West Germany; approximately 25 percent of this total is GDR obligations under the interest-free swing account.

With the exception of 1976, the GDR has increased its hard currency debt at a much higher rate than its non-Communist exports since 1972, pushing the debt to export ratio from 95 percent in 1972 to 247 percent in 1978. The GDR's debt service ratio has jumped sharply since 1976, reaching 51 percent last year. Mounting debt service has cut the GDR's net resource transfer from a high of $1.7 billion in 1975 to $1.0 billion in 1978.

Hungary

Hungary's gross debt was $7.5 billion at yearend 1978; net debt totaled $6.5 billion. Almost all of these liabilities are owed to Western commercial banks. Approximately $1.6 billion of the $5.9 billion raised by the Hungarians from Western banks between 1971 and 1978 were syndicated credits. Budapest has also tapped the international bond market, raising $500 million since 1971 through Eurobond issues and note placements with Middle Eastern lenders. The Hungarians apparently have avoided the use of medium-term supplier credits and made only minimal drawings on government-backed credits.

Despite a sizable debt to export ratio, Budapest had succeeded up to 1978 in holding its debt service ratio below 30 percent. Because of heavy reliance on Eurocurrency financing, the runup of Euromarket interest rates boosted Hungary's debt service costs sharply last year, bringing the debt service ratio to 36 percent. Nevertheless, Hungary does not seem to face any immediate problems in managing its debt, as repayments on its medium-term borrowings from Western banks appear to be well stretched out. 25X1

Czechoslovakia

Czechoslovakia has the lowest level of debt ($3.2 billion gross, $2.5 billion net) among the East European countries. Between 1971 and 1975—when the other bloc countries were experiencing sizable increases in their hard currency indebtedness—the Czechs held to a cautious borrowing policy and had accumulated a gross debt of only $1.1 billion at yearend 1975. Prague's financial conservatism was particularly evident with respect to commercial bank borrowing. Before 1976, the Czechs were either net creditors of or virtually in balance with Western banks. 25X1 The CSSR relied primarily on supplier credits and Western government-guaranteed loans to finance its trade. Since 1975, the Czechs have been much more active borrowers, increasing their total outstanding liabilities by $2.1 billion. In contrast with Prague's earlier practice, roughly 75 percent of recent borrowings has come from Western banks. 25X1

Thanks to its financial conservatism, Prague enjoys the lowest debt service ratio in Eastern Europe. 25X1 Although the upswing in borrowing has boosted the CSSR's debt borrowing to export ratio from 43 percent in 1973 to 104 percent in 1978, the Czech position is quite healthy in comparison with that of bloc allies. The debt service burden will increase in the future as repayments come due on the $560 million in syndicated credits raised by the CSSR between 1975 and 1978. But—as the maturity structure data demonstrate—the greater portion of Czech bank liabilities are short term, and repayments on medium-term borrowing will not be sizable in the near future. 25X1

Bulgaria 25X1

We estimate Bulgaria's yearend 1978 gross debt at $4.3 billion and net debt at $3.7 billion. Up to 1974, Bulgaria managed to hold down the growth of its debt which had risen at a high rate in the mid-1960s. In fact Sofia was able to repay in 1971-72 nearly half of the

335 million DM of West German official credits borrowed in the middle and late 1960s to cover payments to West German suppliers. Beginning in 1974, Bulgarian debt again began to rise at a high rate. Practically all of the $3.2 billion increase in 1974-78 resulted from commercial borrowings. Bulgaria has made particularly heavy use of syndicated credits, which account for nearly 40 percent of the increase in its commercial liabilities since 1973.

Throughout the period covered by our estimates Bulgaria has shouldered comparatively high debt service and debt to export ratios. These ratios reflect to a large extent Bulgaria's low export earnings since the actual value of debt service costs is not high by East European standards. While the country's external financial position—as measured by these ratios—had worsened somewhat between 1972 and 1978, Sofia may take some comfort from the fact that its allies generally have experienced greater deterioration. In fact, the Bulgarians have succeeded in boosting hard currency exports sufficiently to cut their debt to export ratio from 302 percent in 1976 to 271 percent in 1978, and they have prevented a sharp increase in the debt service ratio despite higher Euromarket interest rates.

Romania

Romania's gross debt for yearend 1978 is estimated at $5.2 billion and its net debt at $5.0 billion. Gross liabilities to the West grew steadily from $1.2 billion in 1971 to $2.9 billion in 1975. Debt was held constant in 1976 but climbed sharply in 1977-78. Romania's borrowing from Western banks—particularly before 1977—was comparatively small. In 1977-78, however, Bucharest tapped Western commercial banks for nearly $1.9 billion, a tripling of its debt to banks. Much of this borrowing came from the longer term end of the market as Romania raised $125 million from syndications in 1977 and $725 million in 1978. Through 1975, government-backed export credits accounted for a significant share of liabilities, but Bucharest's reliance on this financing has declined subsequently. Outstanding liabilities to the IMF ($392 million) and the World Bank ($418 million) now account for slightly more of Romanian debt than Western officially backed credits ($800 million).

Our estimates indicate that Romania improved its financial position appreciably between 1972 and 1976. Bucharest cut its debt service ratio from 27 percent to 18 percent by taking advantage of (a) the IMF's concessionary balance-of-payments financing, (b) long-term low-cost West German official credits and World Bank development loans, and (c) Western government-backed credits. Romania also cut its debt to export ratio from 99 percent to 87 percent by increasing hard currency exports faster than debt accumulation. The heavy bank borrowings of the past two years have produced some increase in debt burden, but at yearend 1978 only the CSSR had a more favorable position.

25X1

25X1

Assessing the Accuracy of the Estimates

Because of the improving quality of Western statistics on the Soviet bloc's financial activities, we believe that our estimates are reasonably accurate, particularly for more recent years. We acknowledge that the lack of summary data on a few significant debt components (for example, promissory notes and other commercial borrowings not reported to the BIS as well as officially backed credits from non-NATO lenders) and the need to make assumptions in interpreting some of the available reporting introduce the possibility of error. For this reason, our estimates are more properly viewed within a range of error of roughly 10 percent. In other words, we estimate Poland's gross hard currency debt at $17.8 billion, but believe that the true value probably falls between $16 billion and $20 billion.

25X1

25X1

In interpreting and comparing these estimates with those of other researchers, one should keep a few caveats in mind. Because of (a) the gradual expansion of the BIS reporting area, (b) more complete country-by-country breakouts, and (c) the widening scope of financial transactions captured by BIS statistics, our estimates of banking positions are not entirely consistent on a year-to-year basis. For example, the source from which we adopted the estimates of pre-1974 commercial banking claims and liabilities suggests

25X1

that these totals may overstate Czech assets and understate Romanian liabilities.[11] [redacted]

The lack of data on supplier credit financing makes the estimates of East European indebtedness on this account highly tentative. In comparison with the estimates of other researchers, our totals tend to be low because we believe a sizable share of discounted notes appears in BIS reporting. If we are overly conservative in this judgment our estimates for Czech, Romanian, and Polish debt—particularly before 1976—may be understated. [redacted]

Comparison With Reported Debt Service Payments

The quality of our estimates of government-backed debt hinge upon (a) the accuracy of our assumptions about average credit terms and (b) the validity of applying drawing-to-machinery import relationships computed from NATO statistics to estimating drawings from lenders outside the NATO group. The totals for government-backed debt are computed by determining the amount of debt that would generate the debt service totals reported in NATO's statistics using the assumed average credit terms. The more closely that we can replicate the reported debt service payments, the greater our confidence in the estimates of government-backed debt. [redacted]

The computed time series for debt service compare very closely with NATO's statistics for Poland and Czechoslovakia while the differences for East Germany, Hungary, and Bulgaria are not large overall. In the case of Romania, however, we were less successful in bringing our estimates in line with NATO data. The major discrepancy occurs in 1973 when NATO statistics show a very high level of repayment in comparison with other years. We suspect that some payments due in earlier years may have been deferred until 1973 because of Romania's problems in meeting obligations in 1970-72. If this in fact happened, our estimates of officially backed debt for Romania in the early 1970s may be somewhat too low. [redacted]

[11] Brainard, Lawrence J. "Criteria for Financing East-West Trade," *Tariff, Legal and Credit Constraints on East-West Commercial Relations*, edited by John Hardt (Ottawa, Canada Institute of Soviet and East European Studies, Carlton University), pp. 10-11. [redacted]

Since the OECD reports no statistics on credit drawings and repayments, we lack a benchmark for assessing the accuracy of the estimates of government-backed lending from Japan, Austria, Sweden, and Switzerland. Collateral information on Poland's debt to Japan in 1975 and Austria in 1976 indicate that our estimates may be slightly low. The ratios of estimated outstanding debt to total reported commitments from the non-NATO lenders compare closely with similar ratios computed from the NATO data. Although not conclusive evidence, this suggests that our estimates of outstanding debt to Japan, Austria, Sweden, and Switzerland are not far out of line. [redacted]

25X1

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Comparisons With Polish and Romanian Data

The best benchmarks available for measuring the accuracy of our estimates are the balance-of-payments and debt statistics provided by Poland in connection with its March 1979 Eurodollar syndication and by Romania to the IMF in recent years. The data reported by Hungary are not useful for comparison since they apply only to debt on syndicated credits. [redacted] 25X1

Table 5 compares the estimates of gross debt, repayments of principal and interest, and drawings computed by the procedures described above with those derived from the Polish data. Table 6 compares the estimated maturity structure for total debt with the repayment schedule for medium- and long-term debt reported by Warsaw. It should be noted that the totals for gross debt, principal, repayments, and drawings computed from the Polish statistics required some estimation since (a) only medium- and long-term debt as of yearend 1978 is reported, (b) only the net change in medium- and long-term debt—not total drawings and repayments—is shown for 1970-75, (c) reported drawings in 1976-78 relate only to medium- and long-term credits, and (d) only the net change in short-term debt is given. Nevertheless, the statistics reported by Warsaw provide an adequate basis for estimates of debt and debt service and for comparison with estimates derived from Western financial data. [redacted]

25X1

25X1

25X1

On balance the differences between the two series are 10 percent or less. The two data sets do show, however, a somewhat different pattern of debt accumulation. The Polish statistics indicate a faster growth of debt in 1973-76 while the Western data show more net borrowing in 1977-78. [redacted]

25X1

25X1

Table 5 Million US $

Comparison of Debt and Debt Service Estimates With Polish Data

	1971	1972	1973	1974	1975	1976	1977	1978
Yearend gross debt								
Estimated from Polish data	1,354	1,660	3,057	5,313	8,879	12,307	14,621	17,600
Estimated from Western data	1,138	1,564	2,796	4,643	8,014	11,483	13,967	17,844
Principal repayments								
Estimated from Polish data		220	250	465	750	1,205	1,897	3,120
Estimated from Western data		200	299	508	738	1,213	1,968	2,869
Interest payments								
Reported in Polish data		52	96	294	505	666	903	NA
Estimated from Western data		74	188	395	481	655	919	1,467
Drawings								
Estimated from Polish data		526	1,647	2,721	4,316	4,833	4,211	6,099
Estimated from Western data		626	1,531	2,355	4,109	4,682	4,452	6,746

25X1

Table 6 Million US $

Poland: Maturity Schedule

	Due in 1979 [1]	Due in 1980	Due After 1980
Reported in Polish data	4,100	3,840	7,080
Estimated from Western data	6,328	3,647	7,869

[1] Repayments due in 1979 shown in Polish data refer only to medium- and long-term debt whereas Western data (BIS statistics) include short-term liabilities as well.

One factor in this discrepancy may be the fact that the BIS survey before 1977 was understating commercial bank claims on Eastern Europe. A second factor may be a difference in the timing of credit drawings on government-backed credits as reflected in the Polish data and in NATO statistics. The drawings reported by NATO do not rise as sharply as total drawings in Warsaw's balance of payments until 1976-77 when credit drawings reported by NATO increase rapidly. Since we apply relationships derived from NATO data to estimate the timing of Japanese, Austrian, Swiss, and Swedish lending to Poland, our estimates of government-backed debt may grow too slowly before 1977. Furthermore, the lack of complete NATO statistics on credit usage in 1978 may cause our preliminary estimate of credit drawings to be too large since we extrapolated the 1976-77 trend in computing this estimate. If our data understate government-backed drawings in 1973-75 and overstate the drawings in 1976-78, our estimate of debt repayments due after 1980 may also be exaggerated.

25X1

25X1

Table 7 presents the comparison of our estimates of Romanian debt, debt service, and drawings with the totals reported by Romania to the IMF. Since Bucharest does not include its SDR borrowings in its reported debt, we added the relevant totals to make the two series consistent. We used the Romanian data only for 1976-78 since the content of reporting for earlier years is less complete. [redacted]

The totals for yearend gross debt and principal repayments match up reasonably well. The estimates for interest payments are greater than the totals reported by Romania, particularly for 1978. The interest expenses reported to the IMF for 1978 seem too low given the level of debt and the rising trend of Euromarket interest rates. The drawings series shows a substantial discrepancy in 1976. We cannot explain this difference since the BIS and NATO statistics do not show the level of borrowing reflected in the Romanian data. [redacted] 25X1

Comparison With Previous CIA Estimates

The estimates of East European hard currency debt derived by the above procedures do not differ significantly from previous CIA figures (see table 8). The principal difference in the two methodologies lies in the approach to estimating Western government-guaranteed export credits. In the absence of adequate data on credit commitments, drawings, and debt service—such as those now reported by NATO—previous estimates of officially supported debt were computed by matching the terms of known sales contracts against Western statistics on machinery exports to Eastern Europe. Estimates for other types of 25X1

Table 7 Million US $

Comparison of Debt and Debt Service Estimates With Romanian Data

	1976	1977	1978
Yearend gross debt			
Romanian data	3,105	3,622	4,917
Estimated from Western data	2,903	3,605	5,219
Principal repayments			
Romanian data	482	561	582
Estimated from Western data	420	496	528
Interest payments			
Romanian data	148	176	215
Estimated from Western data	174	203	351
Drawings			
Romanian data	826	1,087	1,877
Estimated from Western data	399	1,198	2,142

[redacted]

Table 8 Billion US $

Eastern Europe: Comparison of Net Debt Estimates

	1971	1972	1973	1974	1975	1976	1977	1978
Bulgaria								
Previous	0.7	0.7	0.8	1.2	1.8	2.3	2.6	3.0
New	0.7	0.9	1.0	1.4	2.3	2.8	3.2	3.7
Czechoslovakia								
Previous	0.4	0.6	0.8	1.1	1.4	2.0	2.6	3.0
New	0.2	0.2	0.3	0.6	0.8	1.4	2.1	2.5
East Germany								
Previous	1.2	1.6	2.1	2.8	3.8	5.2	6.0	7.3
New	1.2	1.2	1.9	2.6	3.5	5.0	6.2	7.5
Hungary								
Previous	0.6	0.8	0.9	1.5	2.1	2.8	3.8	5.8
New	0.8	1.1	1.1	1.5	2.2	2.9	4.5	6.5
Poland								
Previous	1.0	1.2	2.5	4.8	8.0	11.5	14.2	16.7
New	0.8	1.2	2.2	4.1	7.4	10.7	13.5	17.0
Romania								
Previous	1.4	1.7	2.0	2.6	3.0	3.3	3.8	4.5
New	1.2	1.2	1.5	2.5	2.4	2.5	3.4	5.0

[redacted] 25X1

25X1

official credits were computed in virtually the same fashion as that discussed in this paper.

The earlier estimates also relied on BIS statistics to compute Eastern Europe's commercial assets and liabilities. Adjustments similar to those described above were made to account for (a) assets and liabilities carried in the BIS residual and (b) nonguaranteed supplier credits and other borrowing not covered in the BIS survey. The main distinction between the estimates of commercial debt in this paper and earlier totals stems from improvements in BIS reporting. Thanks to more explicit information on the content of BIS statistics, we have adjusted the previous totals to make them as consistent as possible with the recently expanded surveys of commercial bank lending.[12]

Given the uncertainties and data problems underlying any approach to measuring Soviet bloc hard currency debt, the surprising result is not that there are some differences between the two series, but rather that the estimates are close for the majority of cases. If one views an individual estimate as the midpoint of a range containing the true value, even when the two series differ they may in fact represent the same debt total.

In comparing the two sets of estimates, one should remember some of the factors that may explain part of the discrepancies:

- We do not yet have complete NATO statistics on government-backed financing for 1978.
- Differing judgments about the amount of supplier credit financing to be added to BIS totals—for which practically no data exist—could account for much of the difference in the estimates.
- The procedures described in this paper may understate Romanian and Czech debt before 1974 because of a possible overestimate of Czech commercial assets and underestimate of Romanian bank borrowings.
- The estimates of Romania's officially backed debt in the early 1970s may be inaccurate because of possible deferment of repayments during this period. 25X1

25X1

East European Hard Currency Borrowing From IIB and IBEC

CEMA's two international banks—the International Investment Bank (IIB) and the International Bank for Economic Cooperation (IBEC)—have borrowed substantial amounts of hard currency from the Euromarket on behalf of the CEMA community. Their combined gross hard currency liabilities stood at $6.4 billion at yearend 1978, up from $637 million in 1971 (table 9).[13] 25X1 25X1

Table 9 Million US $

Gross Hard Currency Liabilities of the CEMA Banks 25X1

	1971	1972	1973	1974	1975	1976	1977	1978
Total	**637**	**1,654**	**1,939**	**2,385**	**3,720**	**4,609**	**5,538**	**6,425**
IBEC	637	1,654	1,889	2,250	3,036	3,198	3,399	3,675
IIB	0	0	50	135	684	1,411	2,139	2,750

25X1

Neither bank has reported detailed information on how its borrowings have been distributed among the CEMA member states. Nevertheless, in the case of the IIB, enough information is available to estimate each country's obligations to the bank. 25X1

25X1

25X1

IIB

The IIB provides medium- and long-term credits to its member countries for projects of joint interest to the CEMA community. These credits may be granted either in hard currency or in CEMA's transferable rubles. Table 10 presents our estimates of East European hard currency exposure to IIB. (Appendix B explains the method for determining these estimates.) We have not included these obligations in our estimates of hard currency debt given in table 3 and appendix A because they are indirect obligations of the individual countries to the West. 25X1

The lion's share of this indebtedness resulted from construction of the Orenburg gas pipeline—the premier project funded by the IIB. In 1975-78 the bank raised $2.5 billion in five consortium loans, ostensibly to cover the hard currency costs of pipe and equipment for building the pipeline from the Soviet natural gasfields at Orenburg to the USSR-CSSR border. In return for long-term Soviet natural gas deliveries, the East European countries agreed to finance the hard currency costs, receiving the necessary loans from the IIB. 25X1

The debt service costs to Eastern Europe associated with this borrowing are not insignificant, but repayments of principal will be extended over a lengthy period of time. IIB Chairman Belichenko recently informed US Embassy officials that the bank makes only a small "symbolic" profit over Eurocurrency rates on its lending to Eastern Europe. However, even a symbolic profit would have produced total interest costs of, for example, $50 million in 1978 for Poland, according to our estimates. 25X1

Furthermore, each country faces principal repayment obligations. An IIB official has stated that East European repayments for the Orenburg loans are spread over 15 years and amount to $10-20 million a year per country. These totals are in line with our estimates of 1978 repayment obligation on all IIB hard currency credits, which range from $11 million for Romania to $28 million for Poland and the CSSR. 25X1

Table 10 Million US $

Eastern Europe: Net Hard Currency Exposure to the IIB

	1972	1973	1974	1975	1976	1977	1978
Bulgaria							
Borrowings	1	6	16	85	196	326	351
Capital contribution	6	12	12	12	12	12	13
Net exposure	−5	−6	4	73	184	314	338
Czechoslovakia							
Borrowings	6	13	26	95	202	331	271
Capital contribution	7	16	18	18	18	18	20
Net exposure	−1	−3	8	77	184	313	251
East Germany							
Borrowings	3	6	12	83	193	324	374
Capital contribution	10	22	25	25	25	25	27
Net exposure	−7	−16	−13	58	168	299	347
Hungary							
Borrowings	5	11	21	89	198	327	364
Capital contribution	5	10	12	12	12	12	13
Net exposure	0	1	9	77	186	315	351
Poland							
Borrowings	3	6	17	87	196	327	496
Capital contribution	7	15	17	17	17	17	19
Net exposure	−4	−9	0	70	179	310	477
Romania							
Borrowings	6	13	26	63	121	192	193
Capital contribution	3	6	7	7	7	7	8
Net exposure	3	7	19	56	114	185	185

25X1

25X1

Until recently these extended repayment terms seemed inconsistent with the fact that the bulk of the $2.5 billion borrowed by IIB for Orenburg would fall due for repayment between 1978 and 1984. In recent months, however, the IIB has prepaid and refinanced or is in the process of refinancing virtually all the 1975-77 borrowing at new extended maturities and lower interest spreads than those of the original loans. The primary objective of this maneuver is almost certainly intended to stretch out Eastern Europe's repayment obligations and lower interest costs on outstanding debt rather than to finance new projects. Chairman Belichenko stated that new IIB credits in hard currency will fall markedly now that borrowing for the Orenburg project has been completed.[14]

IBEC

IBEC extends two types of credits—settlement and term credits—to help member countries finance their trade. Settlement credits are revolving credits issued to cover temporary earnings shortfalls. Term credits, on the other hand, carry fixed maturities of up to three years and are used to finance more fundamental trade disequilibriums.

IBEC's hard currency lending has risen steadily during the 1970s from $0.7 billion in 1971 to $3.7 billion in 1978 (see table 11). Although IBEC has taken shares in consortium loans for several developing countries and holds some cash on deposit in Western banks, the bulk of its hard currency claims undoubtedly represent lending to CEMA members. Roughly 80 percent of these funds are time deposits which probably carry maturities of less than one year; the remainder are subsumed under "credits provided" on IBEC's balance and probably carry maturities of one to three years. 25X1

The growth of IBEC's hard currency lending has closely followed the rise in overall Soviet bloc indebtedness to the West. Unlike the IIB, IBEC has not released any information on the distribution of its credits by countries. Undoubtedly, a given country's level of borrowing may fluctuate widely over time since much of IBEC's hard currency lending appears to be short-term deposit placements used to cover a member's temporary payments deficits. Nevertheless, IBEC's borrowing pattern on Western markets suggests some possibilities about the exposure of individual countries to the bank. 25X1

Since Western bankers apparently view the USSR as the guarantor of IBEC solvency, the bank has probably been able to raise funds on more favorable terms than CEMA's more financially strapped members. In other words, IBEC may be a source of concessionary hard currency balance-of-payments financing for Eastern Europe. If this is true, one might conclude that

25X1

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Table 11 — Million US $

Hard Currency Lending by IBEC

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Total hard currency lending	**741**	**698**	**1,733**	**1,990**	**2,359**	**3,153**	**3,386**	**3,534**	**3,714**
Time deposits placed in banks	681	569	1,392	1,532	1,772	2,426	2,744	2,856	2,966
Credits extended	60	129	341	458	587	727	642	678	748

25X1

Bulgaria and more recently Poland have made recourse to the bank's "good offices." Indeed a recent article in a Soviet financial journal stresses that IBEC credits have played an important role in helping Poland manage its balance of payments. This suggests that Poland has accumulated a sizable hard currency debt to IBEC.[15]

The CSSR, because of its generally healthy financial position, and Romania, because of its often maverick stance toward CEMA institutions and its access to the IMF's facilities, have probably made less use of IBEC hard currency credits. The GDR and Hungary would fall somewhere in between, but apparently neither has yet encountered severe problems in meeting financial needs from its own resources.

The USSR would seem to derive less advantage from using IBEC as a borrowing front—except possibly as a vehicle to circumvent Western legal limits on bank exposure to a single borrower at a time of heavy borrowing by the Soviet Foreign Trade Bank (VTB). In this connection, IBEC's heaviest borrowing—more than 60 percent of its debt accumulation since 1971—occurred in 1972 and 1975. In these years, the USSR ran large current account deficits and needed sizable short-term credits, primarily to finance unexpectedly large grain imports. In fact, 1972 stands out in our estimates of the USSR's hard currency balance of payments as the only year in which reported Soviet borrowing was insufficient to cover the USSR's payments deficit. The errors and omissions term for this year shows a net funds inflow of nearly the exact size as IBEC's hard currency lending for the year.[16]

An open question is what—if any—role IBEC's convertible currency operations play in CEMA's hard currency trade. This trade apparently involves mainly the barter of above-plan quantities of so-called hard goods—for example, commodities that the partners could otherwise market for hard currency. Given Eastern Europe's mounting need for Soviet oil and raw materials as well as the growing cost to the USSR of providing such potential hard currency exports in soft-currency trade, the volume of intra-CEMA hard goods trade has almost certainly been increasing in recent years. The total amount of outstanding IBEC credit—in both transferable rubles and hard currency—has been rising in step with Eastern Europe's accumulating trade deficits with the USSR since 1974. Since the amount of hard currency credits in total IBEC lending has been rising, some portion of the growing volume of intra-CEMA hard goods trade may be financed through IBEC.

25X1

Although the CEMA countries probably strive to keep their hard goods trade in balance, imbalances evidently occur. Only Hungary publishes trade statistics which give an indication of intra-CEMA hard currency trade; according to these data, Budapest has run surpluses in recent years. Although these statistics do not break out hard currency trade with individual CEMA partners, a Hungarian press report indicated that more than one-half of Budapest's hard currency trade turnover with CEMA in 1978 resulted from trade with the Soviets. Hungary recorded a $68 million hard currency deficit with the USSR, approximately 20 percent of its total 1978 trade deficit with the Soviet Union.[17]

25X1

The financing of surpluses could involve a credit entry in favor of the surplus holder on IBEC's books which the deficit partner must liquidate through future additional deliveries—a procedure analogous to the granting of transferable ruble credits. If surpluses become a regular occurrence, the resulting accumulation of future claims rather than cash receipts would reduce the creditor's interest in hard goods exchange. Consequently, a portion of IBEC's hard currency operations may involve the transfer of hard currency deposits to holders of surpluses from intra-CEMA hard goods trade—with the deficit partner being responsible for repayment to the bank.

25X1

[15] Krulikovski, R. "Kreditnyy Mekhanizm MBES na Sluzhbe Integratsii," *Den'gi i Kredit*, October 1979, pp. 25-27.

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Largely because of sharply increased prices for its raw material and energy exports, the USSR has accumulated substantial trade surpluses with Eastern Europe (except Romania) since 1974. Soviet trade statistics provide no indication of the amount of hard goods trade involved in total commerce with Eastern Europe. Nonetheless, assuming that (a) some of the USSR's surplus results from hard goods trade and (b) IBEC plays a role in crediting intra-CEMA hard goods exchanges, Eastern Europe presumably has built up some hard currency debt to IBEC as a result of trade with the USSR. The Hungarian trade data indicate that Budapest has been able to offset hard currency deficits with the USSR by surpluses with other CEMA partners. For the other CEMA countries, the size of accumulated deficits since 1974—with both the USSR and other East European countries—suggests that the GDR and to a lesser extent Poland, the CSSR, and Bulgaria hold some hard currency obligations to IBEC resulting from intra-CEMA hard goods trade. 25X1

Appendix A

Summary Tables for East European Debt

The tables summarizing the country debt estimates developed by the procedures discussed in this paper are presented in this appendix. The first table in each country's section analyzes yearend gross and net debt into various components: (a) commercial liabilities including borrowing from banks, promissory note financing, and unspecified other borrowing less the adjustment for double counting of officially supported credits; (b) hard currency assets held in Western banks; (c) Western officially supported credits; and (d) for Romania, borrowing from the IMF and World Bank. The second table of each section presents our measures of debt burden. The third table distributes debt by maturity. As discussed above, the maturity structure breakout includes short-term as well as medium- and long-term debt. 25X1

The fourth table summarizes our data on Western officially supported export credits: new commitments, drawings, debt, undrawn commitments, debt service, and total exposure. The values for commitments, drawings, debt, and exposure refer only to the principal of the loan and not to the stream of interest the borrowing country is obliged to pay on that principal. These tables are not internally consistent, because of minor discrepancies and gaps in the original data. For example, undrawn commitments in 1971 should equal undrawn commitments in 1970 plus 1971 new commitments less 1971 drawings. Since we do not know the reasons for these discrepancies, we have not adjusted our computed series to make them totally consistent. For the GDR, we include a separate table covering East Germany's net debt to West Germany for 1973-78. 25X1

Table A-1

Million US $

Poland: Hard Currency Debt

	1971	1972	1973	1974	1975	1976	1977	1978
Commercial debt	**420**	**856**	**1,951**	**3,586**	**6,547**	**9,159**	**10,393**	**13,430**
Liabilities to Western banks	**318**	**660**	**1,573**	**2,970**	**5,397**	**7,947**	**9,274**	**12,441**
BIS series	307	644	1,492	2,450	4,567	6,422	9,076	11,723
BIS residual	NA	NA	NA	377	598	932	198	718
Austrian banks	11	16	81	144	232	593	NA	NA
Promissory notes	**115**	**215**	**415**	**690**	**990**	**1,080**	**1,090**	**960**
Other	NA	NA	NA	NA	**327**	**381**	**409**	**507**
Double counting	**−13**	**−19**	**−37**	**−75**	**−167**	**−249**	**−380**	**−478**
Officially backed debt	**718**	**708**	**845**	**1,057**	**1,467**	**2,324**	**3,574**	**4,414**
Guaranteed export credits	370	384	543	783	1,091	1,849	2,921	3,700
Other	348	324	302	274	376	475	653	714
Commercial assets	**374**	**414**	**583**	**523**	**633**	**803**	**435**	**872**
BIS series	361	398	564	407	508	643	399	808
BIS residual	NA	NA	NA	85	89	96	36	64
Austrian banks	13	16	19	31	36	64	NA	NA
Gross debt	**1,138**	**1,564**	**2,796**	**4,643**	**8,014**	**11,483**	**13,967**	**17,844**
Net debt	**764**	**1,150**	**2,213**	**4,120**	**7,381**	**10,680**	**13,532**	**16,972**

25X1

Table A-2

Poland: Measures of Hard Currency Debt Burden

	1972	1973	1974	1975	1976	1977	1978
	Million US $						
Non-Communist exports	1,796	2,529	3,883	4,123	4,441	4,882	5,499
Gross debt	1,564	2,796	4,643	8,014	11,483	13,967	17,844
Principal repayment	200	299	508	738	1,213	1,968	2,869
Interest	74	188	395	481	655	919	1,467
Drawings	626	1,531	2,355	4,109	4,682	4,452	6,746
Net transfer	352	1,044	1,452	2,890	2,814	1,565	2,410
	Percent						
Debt service as a share of exports	15	19	23	30	42	59	79
Gross debt as a share of exports	87	111	120	194	259	286	324
Debt service as a share of drawings	44	32	38	30	40	65	64

25X1

Table A-3

Poland: Debt Maturity Structure

	Due in 1979	Due in 1980	Due After 1980
	Million US $		
Commercial debt	5,318	2,697	5,415
Government-backed debt	1,010	950	2,454
Total	**6,328**	**3,647**	**7,869**
	Percent		
Share of total debt	35	20	44

25X1

Table A-4 Million US $

Poland: Summary Statistics on Government-Backed Debt

	Total New Commitments	Total Drawings	Undrawn Commitments	Government Guaranteed Debt	Debt Service	Total Exposure
1970	92.8	416.5	208.5	333.3	110.3	541.8
1971	179.7	147.3	146.0	370.0	144.3	515.9
1972	350.4	151.6	298.2	383.7	169.9	681.9
1973	562.1	343.2	840.1	543.0	237.6	1,383.1
1974	1,240.7	501.8	1,532.5	783.3	336.9	2,315.7
1975	1,067.6	571.5	2,008.8	1,091.1	366.7	3,099.8
1976	2,215.6	1,186.8	2,897.4	1,848.8	594.1	4,746.2
1977	3,087.7	1,821.2	4,763.4	2,921.4	996.3	7,684.9
1978	2,028.6	1,807.0	4,837.3	3,700.0	1,368.1	8,537.3

25X1

Table A-5 Million US $

East Germany: Hard Currency Debt

	1971	1972	1973	1974	1975	1976	1977	1078
Commercial debt	**855**	**945**	**1,510**	**2,495**	**4,485**	**5,043**	**6,140**	**7,729**
Liabilities to Western banks	**722**	**746**	**1,242**	**2,152**	**4,058**	**4,461**	**5,299**	**6,793**
BIS series	688	695	1,161	1,682	3,350	3,611	4,870	6,193
BIS residual	NA	NA	NA	302	398	402	429	600
Austrian banks	34	51	81	168	310	448	NA	NA
Promissory notes	**160**	**225**	**295**	**365**	**430**	**475**	**505**	**495**
Other	NA	NA	NA	NA	**55**	**155**	**408**	**522**
Double counting	**−27**	**−26**	**−27**	**−22**	**−58**	**−48**	**−72**	**−81**
Officially backed debt	**553**	**609**	**626**	**641**	**703**	**813**	**1,005**	**1,165**
Guaranteed export credits	418	459	426	391	403	493	635	745
Other	135	150	200	250	300	320	370	420
Commercial assets	**203**	**325**	**260**	**544**	**1,640**	**809**	**986**	**1,346**
BIS series	198	318	250	422	1,324	616	882	1,195
BIS residual	NA	NA	NA	89	231	92	79	111
Austrian banks	5	7	10	33	85	91	NA	NA
Other	NA	NA	NA	NA	NA	10	25	40
Gross debt	**1,408**	**1,554**	**2,136**	**3,136**	**5,188**	**5,856**	**7,145**	**8,894**
Net debt	**1,205**	**1,229**	**1,876**	**2,592**	**3,548**	**5,047**	**6,159**	**7,548**

25X1

Table A-6

East Germany: Measures of Hard Currency Debt Burden

	1972	1973	1974	1975	1976	1977	1978
	Million US $						
Non-Communist exports	1,642	2,230	3,014	3,062	3,643	3,395	3,600
Gross debt	1,554	2,136	3,136	5,188	5,856	7,145	8,894
Principal repayments	208	276	367	468	708	867	1,113
Interest	93	159	271	307	350	435	725
Drawings	354	858	1,367	2,520	1,376	2,156	2,862
Net transfer	53	423	729	1,745	318	854	1,024
	Percent						
Debt service as a share of exports	18	20	21	25	29	38	51
Gross debt as a share of exports	95	96	104	169	161	210	247
Debt service as a share of drawings	85	51	47	31	77	60	64

25X1

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Table A-7

East Germany:
Debt Maturity Structure

	Due in 1979	Due in 1980	Due After 1980
	Million US $		
Commercial debt	4,058	1,526	2,145
Government-backed debt [1]	184	162	399
Total	**4,242**	**1,688**	**2,544**
	Percent		
Share of total debt	**50**	**20**	**30**

[1] Excluding obligations to West Germany under Swing Account.

25X1

Table A-8

Million US $

Summary Statistics For East German Officially Backed Debt

	Total New Commitments	Total Drawings	Undrawn Commitments	Government Guaranteed Debt	Debt Service	Total Exposure
1970	140.0	359.5	55.6	306.8	76.0	362.6
1971	159.4	197.3	17.0	418.3	118.6	435.3
1972	52.0	152.1	0	458.7	148.7	458.7
1973	106.5	95.8	57.0	426.0	164.6	483.1
1974	91.2	113.3	148.7	391.0	183.4	539.7
1975	528.9	184.6	583.6	403.1	210.0	986.7
1976	527.7	304.3	829.0	492.6	263.1	1,321.6
1977	483.4	324.7	1,177.0	634.8	240.1	1,811.8
1978	841.0	311.2	2,043.8	745.1	268.5	2,788.8

25X1

Table A-9 Million US $

**East Germany:
Net Debt to West Germany**

1973	1974	1975	1976	1977	1978
675	790	920	1,100	1,420	1,800

25X1

Table A-10 Million US $

Hungary: Hard Currency Debt

	1971	1972	1973	1974	1975	1976	1977	1978
Commercial debt	**968**	**1,294**	**1,353**	**2,053**	**3,081**	**3,998**	**5,596**	**7,380**
Liabilities to Western banks	**943**	**1,219**	**1,278**	**1,938**	**2,830**	**3,722**	**5,135**	**6,880**
BIS series	911	1,171	1,205	1,512	2,216	3,082	4,772	6,449
BIS residual	NA	NA	NA	272	339	252	363	431
Austrian banks	32	48	73	154	275	388	NA	NA
Other	**25**	**75**	**75**	**115**	**251**	**276**	**461**	**500**
Officially backed debt	**103**	**98**	**89**	**76**	**54**	**51**	**59**	**93**
Guaranteed export credits	103	98	89	76	54	51	59	93
Commercial assets	**223**	**337**	**346**	**592**	**940**	**1,197**	**1,164**	**941**
BIS series	207	318	324	468	748	899	1,068	899
BIS residual	NA	NA	NA	98	131	135	96	42
Austrian banks	16	19	22	26	61	163	NA	NA
Gross debt	**1,071**	**1,392**	**1,442**	**2,129**	**3,135**	**4,049**	**5,655**	**7,473**
Net debt	**848**	**1,055**	**1,096**	**1,537**	**2,195**	**2,852**	**4,491**	**6,532**

25X1

Table A-11

Hungary: Measures of Hard Currency Debt Burden

	1972	1973	1974	1975	1976	1977	1978
	Million US $						
Non-Communist exports	994	1,407	1,688	1,691	1,945	2,185	2,535
Gross debt	1,392	1,442	2,129	3,135	4,049	5,655	7,473
Principal repayment	62	84	115	120	172	218	287
Interest	78	140	207	204	230	330	624
Drawings	383	134	802	1,126	1,086	1,824	2,105
Net transfer	243	−90	480	802	684	1,276	1,194
	Percent						
Debt Service as a share of exports	14	16	19	19	21	25	36
Gross debt as a share of exports	140	102	126	185	208	259	295
Debt service as a share of drawings	37	167	40	29	37	30	43

25X1

Table A-12

Hungary: Debt Maturity Structure

	Due in 1979	Due in 1980	Due After 1980
	Million US $		
Commercial debt	4,073	495	2,812
Government-backed debt	26	23	44
Total	**4,099**	**518**	**2,856**
	Percent		
Share of debt	**55**	**7**	**38**

25X1

Table A-13

Million US $

Hungary: Summary Statistics on Government-Backed Debt

	Total New Commitments	Total Drawings	Undrawn Commitments	Government-Guaranteed Debt	Debt Service	Total Exposure
1970	57.1	118.9	28.3	101.8	24.8	130.2
1971	27.6	21.9	30.7	103.0	28.8	133.7
1972	7.3	19.1	23.4	98.2	31.9	121.6
1973	19.8	18.3	37.0	89.4	34.6	126.4
1974	27.0	16.5	49.4	76.0	36.8	125.4
1975	60.3	9.1	104.9	53.7	36.9	158.6
1976	19.4	33.6	88.3	50.5	42.7	138.9
1977	27.2	29.9	46.8	59.0	27.1	105.9
1978	55.0	62.5	36.8	92.7	37.5	129.6

25X1

Table A-14

Million US $

Czechoslovakia: Hard Currency Debt

	1971	1972	1973	1974	1975	1976	1977	1978
Commercial debt	**284**	**435**	**558**	**821**	**926**	**1,575**	**2,290**	**2,798**
Liabilities to Western banks	**161**	**243**	**294**	**445**	**450**	**1,059**	**1,569**	**2,054**
BIS series	156	235	281	286	300	901	1,519	1,976
BIS residual	NA	NA	NA	119	90	80	50	78
Austrian banks	5	8	13	50	60	78	NA	NA
Promissory notes	**135**	**205**	**280**	**380**	**470**	**510**	**555**	**555**
Other	**NA**	**NA**	**NA**	**NA**	**30**	**30**	**193**	**243**
Double counting	**-12**	**-13**	**-16**	**-14**	**-24**	**-24**	**-27**	**-54**
Officially backed debt	**201**	**195**	**199**	**227**	**206**	**287**	**326**	**408**
Guaranteed export credits	201	195	199	227	206	287	326	408
Commercial assets	**325**	**454**	**484**	**408**	**305**	**428**	**495**	**693**
BIS series	315	442	472	315	250	356	454	629
BIS residual	NA	NA	NA	66	44	53	41	64
Austrian banks	10	12	12	27	11	19	NA	NA
Gross debt	**485**	**630**	**757**	**1,048**	**1,132**	**1,862**	**2,616**	**3,206**
Net debt	**160**	**176**	**273**	**640**	**827**	**1,434**	**2,121**	**2,513**

25X1

Table A-15

Czechoslovakia: Measures of Hard Currency Debt Burden

	1972	1973	1974	1975	1976	1977	1978
	Million US $						
Non-Communist exports	1,382	1,776	2,301	2,379	2,329	2,745	3,079
Gross debt	630	757	1,048	1,132	1,862	2,616	3,206
Principal repayments	95	133	186	236	250	297	350
Interest	39	69	105	88	106	161	281
Drawings	240	260	477	320	980	1,051	940
Net transfer	106	58	186	−4	624	593	309
	Percent						
Debt service as a share of exports	10	11	13	14	15	17	20
Gross debt as a share of exports	46	43	46	48	80	95	104
Debt service as a share of drawings	56	78	61	101	36	44	67

25X1

Table A-16

Czechoslovakia: Debt Maturity Structure

	Due in 1979	Due in 1980	Due After 1980
	Million US $		
Commercial debt	1,621	188	989
Government guaranteed debt	144	119	145
Total debt	**1,765**	**307**	**1,134**
	Percent		
Share of debt	**55**	**10**	**35**

25X1

Table A-17 Million US $

Czechoslovakia:
Summary Statistics on Government-Backed Debt

	Total New Commitments	Total Drawings	Undrawn Commitments	Government Guaranteed Debt	Debt Service	Total Exposure
1970	41.2	196.7	69.0	163.4	46.1	232.4
1971	70.7	88.2	41.3	200.8	67.2	242.1
1972	112.5	55.6	82.1	194.6	78.5	276.7
1973	103.6	82.0	156.1	198.8	95.7	354.9
1974	79.2	132.2	149.3	227.3	125.3	376.6
1975	337.9	96.5	401.1	206.1	138.9	607.2
1976	119.2	183.4	333.1	287.1	129.2	620.2
1977	185.9	157.6	421.0	325.8	150.3	746.7
1978	202.0	226.3	476.1	407.9	184.1	884.0

25X1

Table A-18 Million US $

Bulgaria: Hard Currency Debt

	1971	1972	1973	1974	1975	1976	1977	1978
Commercial debt	**442**	**765**	**818**	**1,520**	**2,453**	**2,878**	**3,394**	**3,935**
Liabilities to Western banks	**412**	**719**	**765**	**1,435**	**2,063**	**2,470**	**2,898**	**3,457**
BIS series	391	687	718	1,131	1,648	2,032	2,640	3,174
BIS residual	NA	NA	NA	199	278	258	258	283
Austrian banks	21	32	47	105	137	180	NA	NA
Promissory notes	**45**	**60**	**70**	**100**	**195**	**220**	**210**	**195**
Other	NA	NA	NA	NA	**225**	**225**	**318**	**318**
Double counting	**−15**	**−14**	**−17**	**−15**	**−30**	**−37**	**−32**	**−35**
Officially backed debt	**301**	**244**	**202**	**183**	**187**	**320**	**313**	**328**
Guaranteed export credits	208	177	129	101	111	236	262	269
Other	93	67	73	82	76	84	51	59
Commercial assets	**20**	**100**	**23**	**343**	**383**	**442**	**538**	**553**
BIS series	18	97	19	253	282	355	492	492
BIS residual	NA	NA	NA	53	49	53	46	61
Austrian banks	2	3	4	37	52	34	NA	NA
Gross debt	**743**	**1,009**	**1,020**	**1,703**	**2,640**	**3,198**	**3,707**	**4,263**
Net debt	**723**	**909**	**997**	**1,360**	**2,257**	**2,756**	**3,169**	**3,710**

25X1

Table A-19

Bulgaria: Measures of Hard Currency Debt Burden

	1972	1973	1974	1975	1976	1977	1978
	Million US $						
Non-Communist exports	509	679	921	937	1,058	1,270	1,572
Gross debt	1,009	1,020	1,703	2,640	3,198	3,707	4,263
Principal	128	125	158	149	233	336	352
Interest	54	92	149	164	181	236	373
Drawings	394	136	841	1,086	791	845	908
Net transfer	212	−81	534	773	377	273	183
	Percent						
Debt service as a share of exports	36	32	33	33	39	45	46
Gross debt as a share of exports	198	150	202	282	302	292	271
Debt service as a share of drawings	46	160	37	29	52	68	80

25X1

Table A-20

Bulgaria: Debt Maturity Structure

	Due in 1979	Due in 1980	Due After 1980
	Million US $		
Commercial debt	2,128	471	1,336
Government-backed debt	84	71	173
Total	**2,212**	**542**	**1,509**
	Percent		
As a share of debt	**52**	**13**	**35**

25X1

Table A-21 Million US $

Bulgaria: Summary Statistics on Government-Backed Debt

	Total New Commitments	Total Drawings	Undrawn Commitments	Government Guaranteed Debt	Debt Service	Total Exposure
1970	89.3	220.5	104.8	176.5	58.3	281.3
1971	49.5	93.5	51.6	207.5	80.1	259.1
1972	50.2	39.8	49.5	176.9	86.4	226.3
1973	41.9	27.8	119.5	129.1	88.9	248.6
1974	75.5	58.1	165.5	100.5	99.0	266.0
1975	238.0	66.3	347.3	111.1	66.7	458.3
1976	135.5	196.3	241.0	236.4	92.5	477.4
1977	124.7	107.4	330.6	262.2	106.0	592.8
1978	122.0	100.9	394.2	269.0	120.2	663.2

Table A-22 Million US $

Romania: Hard Currency Debt

	1971	1972	1973	1974	1975	1976	1977	1978
Commercial debt	**585**	**597**	**682**	**1,780**	**2,024**	**1,841**	**2,306**	**3,609**
Liabilities to Western banks	**440**	**361**	**395**	**1,016**	**1,149**	**986**	**1,456**	**2,862**
BIS series	428	343	381	838	977	813	1,419	2,544
BIS residual	NA	NA	NA	131	136	137	37	318
Austrian banks	12	18	14	47	36	36	NA	NA
Promissory notes	**180**	**265**	**325**	**385**	**415**	**385**	**330**	**285**
Other	NA	NA	NA	**420**	**520**	**520**	**597**	**632**
Double counting	**−35**	**−29**	**−38**	**−41**	**−60**	**−50**	**−77**	**−170**
Officially backed debt	**642**	**652**	**814**	**797**	**706**	**659**	**715**	**800**
Guaranteed export credits	612	633	717	688	605	550	647	721
Other	30	19	97	109	101	109	68	79
Other borrowing	NA	NA	**115**	**116**	**194**	**403**	**584**	**810**
IMF position	NA	NA	115	116	158	331	368	392
IBRD loans	NA	NA	NA	NA	36	72	216	418
Commercial assets	**NEGL**	**45**	**116**	**210**	**475**	**375**	**217**	**229**
BIS series	NEGL	27	102	135	374	295	199	212
BIS residual	NA	NA	NA	28	65	44	18	17
Austrian banks	NEGL	18	14	47	36	36	NA	NA
Gross debt	**1,227**	**1,249**	**1,611**	**2,693**	**2,924**	**2,903**	**3,605**	**5,219**
Net debt	**1,227**	**1,204**	**1,495**	**2,483**	**2,449**	**2,528**	**3,388**	**4,990**

Table A-23

Romania: Measures of Hard Curency Debt Burden

	1972	1973	1974	1975	1976	1977	1978
	Million US $						
Non-Communist exports	1,265	1,804	2,762	2,884	3,323	3,638	4,350
Gross debt	1,249	1,611	2,693	2,924	2,903	3,605	5,219
Principal repayments	247	321	399	460	420	496	528
Interest	90	126	208	207	174	203	351
Drawings	269	683	1,481	691	399	1,198	2,142
Net transfer	−68	236	874	24	−195	499	1,263
	Percent						
Debt service as a share of exports	27	25	22	23	18	19	20
Gross debt as a share of exports	99	89	98	101	87	99	120
Debt service as a share of drawings	125	65	41	97	149	58	41

25X1

Table A-24

Romania: Debt Maturity Structure

	Due in 1979	Due in 1980	Due After 1980
	Million US $		
Commercial debt	1,634	349	1,626
Government-backed debt	220	180	400
IMF, IBRD borrowing	13	36	761
Total debt	**1,867**	**565**	**2,787**
	Percent		
Share of debt	**36**	**11**	**53**

25X1

Table A-25 Million US $

Romania: Summary Statistics on Government-Backed Debt

	Total New Commitments	Total Drawings	Undrawn Commitments	Government Guaranteed Debt	Debt Service	Total Exposure
1970	128.6	697.9	84.2	580.9	162.4	665.0
1971	228.3	178.9	127.6	612.2	196.9	739.8
1972	209.1	203.0	176.7	633.2	235.1	809.9
1973	331.5	320.5	329.6	717.3	298.4	1,046.9
1974	246.8	249.2	322.1	688.3	341.4	1,010.4
1975	288.4	228.6	472.4	604.6	372.3	1,077.0
1976	313.7	171.0	449.3	550.3	277.4	999.5
1977	328.7	348.1	573.0	647.0	313.9	1,220.1
1978	266.0	346.6	516.2	720.7	343.8	1,236.9

25X1

Appendix B

Estimating East European Obligations to the International Investment Bank

The 1978 annual report of the IIB stated that the bank had provided the following amounts of credit (in million transferable rubles—TR) to CEMA member states since the bank's inception in 1971 through 1978: Bulgaria 500.0; Hungary 518.9; East Germany 516.7; Poland 625.5; Romania 294.6; USSR 158.0; Mongolia 5.5; and Czechoslovakia 445.0. The bank also reported that 2.4 billion TR had been used to finance construction of the Orenburg gas pipeline. [redacted]

Early in 1979, a Soviet official told US Embassy officials that Romania's share of the Orenburg financing totaled 225 million TR—of which 190 million TR were hard currency—and that this amount was nearly one-half the amount of credits provided to each of the other East European participants.* We assumed that each country's borrowing is proportional to its share of future Soviet gas deliveries through the pipeline. Since Romania's share is 10 percent and the others' share roughly 18 percent, we estimated that the amount of credits provided to each of the other five East European countries equals 405 million TR of which 342 million TR are in hard currency. Subtracting the total credits to Eastern Europe (2,250 million TR) from the total IIB financing of Orenburg (2,400 million TR) leaves 150 million TR in credits to the USSR. [redacted]

Judging from the IIB data, each East European country has drawn credits in excess of the Orenburg financing for other bank-sponsored projects constructed on its territory. The Bank regularly reports those projects for which it has committed credits. Particularly before 1976, the IIB would also indicate how much credit was approved for each project and occasionally the amount of credit in hard currency. Drawings by each East European country in excess of Orenburg financing seem in line with the reported and estimated credits used for other projects. Available data suggest that roughly 70 percent of the credits for projects other than Orenburg have been in hard currency. [redacted] 25X1

The IIB's 1977 annual report provided credit drawings by year from 1971 to 1977. Netting total drawings through 1977 from the total member drawings reported through 1978—3.1 billion TR—yielded 1978 drawings. Knowing the amount of credit outstanding at yearend from the annual reports, we were able to compute the amount of repayments in each year. [redacted] 25X1

25X1

We allocated annual drawings by country on the basis of known and estimated commitments to each CEMA member. We assumed that no credits were drawn for the Orenburg project before 1975 and that credits for the pipeline accounted for 83 percent of the 2.9 billion TR drawn in 1975-78. We estimated hard currency drawings at 70 percent of the credits used on projects other than Orenburg and 84 percent of the Orenburg drawings. We allocated annual repayments on the basis of each country's drawings, assuming 70 percent of repayments were hard currency credits. Netting estimated hard currency repayments against estimated hard currency drawings yields the annual totals for hard currency obligations to the IIB. [redacted] 25X1 25X1

In computing net exposure, we subtract from each country's gross liabilities the portion of its membership quota paid in gold and hard currency. IIB's paid-in authorized capital totals 374 million TR, of which Bulgaria has contributed 29 million TR, Hungary 29 million TR, GDR 61 million TR, Poland 42 million TR, Romania 18 million TR, and the CSSR 45 million TR. Gold and convertible currencies account for 30 percent of each country's quota. [redacted] 25X1

[redacted] 25X1

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